

Message Text

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PAGE 01 BONN 08446 01 OF 02 271514Z

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EURE-00 SSO-00 NSCE-00 INRE-00

USIE-00 INR-05 NSC-05 L-01 PM-03 SP-02 EB-03 OMB-01

ACDA-05 PRS-01 NEA-07 SIL-01 IO-03 CIAE-00 DODE-00

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O R 271501Z MAY 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 0358

INFO USMISSION NATO BRUSSELS

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY OTTAWA

AMEMBASSY ANKARA

AMEMBASSY ATHENS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 08446

LIMDIS

E.O. 11652: GDS

TAGS: EGEN, EFIN, ETRD, GW

SUBJECT: CHANCELLOR'S ADVISOR ON SUBJECTS CHANCELLOR
MAY RAISE AT NATO SUMMIT

1. SUMMARY: CHANCELLOR'S SENIOR ECONOMIC ADVISOR

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PAGE 02 BONN 08446 01 OF 02 271514Z

HISS TOLD AMBASSADOR MAY 27 THAT CHANCELLOR WILL

USE NATO SUMMIT MEETING IN BRUSSELS AS OCCASION TO CONTINUE HIS EARLIER EXCHANGES ON SERIOUS IMPLICATIONS FOR NATO AND FOR ALL OF US OF THE INTERNATIONAL ECONOMIC SITUATION. HE DID NOT EXPECT THE CHANCELLOR TO MAKE ANY SPECIFIC RECOMMENDATIONS. THE CHANCELLOR WILL BE LESS CONCERNED OVER THE FRAGILITY OF THE INTERNATIONAL BANKING SYSTEM AND DOES NOT SHARE FRENCH CONCERNS OVER WEAKNESS OF THE DOLLAR, PROVIDED WE CAN GET OUR ECONOMY GOING AGAIN. THE CHANCELLOR IS CONCERNED, HOWEVER, WHETHER REFLATIONARY MEASURES IN THE FRG OR THE US ARE REALLY GOING TO WORK. WHILE HISS HAD NO DIRECT KNOWLEDGE OF THE CHANCELLOR'S VIEWS ON THE SECRETARY'S KANSAS CITY SPEECH OR ON OFFSET, HISS DOUBTED THAT EITHER OF THESE MATTERS WOULD BE IN THE FRONT OF THE CHANCELLOR'S MIND.

2. DURING MEETING WITH DIETER HISS, SENIOR ECONOMIC ADVISOR IN THE CHANCELLERY, ON MAY 27, THE CHANCELLOR'S ADVISOR (WHO WILL BE WITH CHANCELLOR IN BRUSSELS) GAVE THE AMBASSADOR A RUNDOWN ON THE TOPICS THE CHANCELLOR IS LIKELY TO BE INTERESTED IN DURING SUMMIT MEETING ITSELF AS WELL AS DURING MEETING WITH PRESIDENT.

3. HISS SAID THE CHANCELLOR SAW THIS AS AN OCCASION TO PURSUE PREVIOUS EXCHANGES WITH THE PRESIDENT CONCERNING HIS PREOCCUPATION WITH DEVELOPMENTS IN THE INTERNATIONAL ECONOMY. HE DID NOT EXPECT THAT THE CHANCELLOR WOULD HAVE ANY SPECIFIC PRESCRIPTIONS BUT HE WOULD UNDERLINE THE IMPORTANCE FOR THE INTERESTS OF NATO ITSELF OF THE UNCERTAIN SITUATION IN WHICH WE FIND OURSELVES. THE CHANCELLOR, FOR EXAMPLE, IS BY NO MEANS ASSURED THAT THE UP-TURN WE ARE PROJECTING BOTH IN THE US AND IN THE FRG WILL ACTUALLY COME ABOUT. THERE IS DOUBT IN THE CHANCELLOR'S MIND AS TO WHETHER THE LARGE BUDGET DEFICITS BOTH THE FRG AND THE US ARE INCURRING WILL DO MORE THAN KEEP OUR ECONOMIES FROM DROPPING FURTHER INTO THE VALLEY. THE QUESTION IS CONFIDENTIAL

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PAGE 03 BONN 08446 01 OF 02 271514Z

WHETHER THESE MEASURES WILL BE SUFFICIENT TO BEGIN A NEW RECOVERY. THE CHANCELLOR MAY ALSO EMPHASIZE A NEED FOR BETTER COORDINATION OF OUR DOMESTIC

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PAGE 01 BONN 08446 02 OF 02 271523Z

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AMEMBASSY ANKARA

AMEMBASSY ATHENS

C O N F I D E N T I A L SECTION 02 OF 02 BONN 08446

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MONETARY AND CREDIT POLICY AND MAY HAVE SOME
SUGGESTIONS IN THIS REGARD.

4. HISS THOUGHT THE CHANCELLOR WAS MORE RELAXED
OVER HIS FEARS AS TO THE FRAGILITY OF THE INTER-
NATIONAL BANKING SYSTEM. HE HAD BEEN REASSURED BY
WHAT HISS HAD BEEN TOLD DURING HIS CONVERSATION
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PAGE 02 BONN 08446 02 OF 02 271523Z

WITH FEDERAL RESERVE CHAIRMAN BURNS EARLIER IN THE YEAR. THE DIFFICULT SITUATION OF THE BRITISH, HOWEVER, WAS STILL A WORRY, NOT SO MUCH AT THE MOMENT, BUT COULD CAUSE TROUBLES LATER SHOULD THE OPEC COUNTRIES DECIDE TO EXPLOIT THE BRITISH SITUATION.

5. THE AMBASSADOR RAISED THE QUESTION AS TO WHETHER THE CHANCELLOR WAS STILL FEARFUL THAT THE PRESENT RECESSION MIGHT BRING US INTO A WORLD-WIDE DEPRESSION WITH SERIOUS POLITICAL CONSEQUENCES. HISS SAID THE CHANCELLOR STILL HAD THAT WORRY. HE CITED, FOR EXAMPLE, THE POLITICAL CONSEQUENCES OF PROLONGED HIGH LEVELS OF UNEMPLOYMENT. THE CHANCELLOR NATURALLY WAS KEEPING A WEATHER-EYE ON DEVELOPMENTS IN THE US. HE ALSO SAW PROBLEMS WITH CONTINUED UNEMPLOYMENT IN FRANCE AND THE PROBABLE ADDITION OF 500,000 SCHOOL-LEAVING FRENCH YOUNG PEOPLE ON THE LABOR MARKET THIS YEAR FOR WHOM NO PLACES COULD BE FOUND.

6. HISS SAID THAT THE GERMANS CONTINUED TO BE MUCH LESS CONCERNED THAN THE FRENCH OVER THE CONTINUED WEAKNESS OF THE DOLLAR. THE FRG DOES NOT FEAR AMERICAN COMPETITION ARISING FROM GREATER COMPETITIVENESS OF AMERICAN PRODUCTS. THE FRG THOUGHT IT WAS MORE IMPORTANT TO INCREASE THE LEVEL OF GLOBAL TRADE OVERALL RATHER THAN TO SEEK ADVANTAGES THROUGH PARITY MANIPULATIONS FAVORING INDIVIDUAL COUNTRIES. FOR THE SAME REASON THE FRG CONSIDERS MTN IMPORTANT IN WORKING AGAINST RISING PROTECTIONISM.

7. HISS SAID THAT HE HAD NO DIRECT EVIDENCE OF THE CHANCELLOR'S VIEWS ON THE SECRETARY'S KANSAS CITY SPEECH ALTHOUGH ITS CONTENT SEEMED IN THE DIRECTION OF THE CHANCELLOR'S THINKING. THE CHANCELLOR, LIKE THE US, WAS INTERESTED IN DEVELOPING MORE FLEXIBILITY SINCE WE MUST DEAL WITH THE OIL PRODUCERS AND OTHER LDCS ONE WAY OR THE OTHER AND SHOULD NOT ALLOW OURSELVES TO BE BOUND BY EARLIER HIDE-BOUND DOGMA

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 08446 02 OF 02 271523Z

AND PROSCRIPTIONS. HISS WENT ON, HOWEVER, TO STRESS THAT WE HAVE TO DO THIS WITHOUT GIVING UP THOSE THINGS IN OUR OWN SYSTEM WHICH ARE VITAL TO OUR INTERESTS.

8. HISS DOUBTED THAT THE CHANCELLOR HIMSELF WOULD WANT TO RAISE THE QUESTION OF ANOTHER OFFSET AGREEMENT. AS IN THE CASE OF THE KANSAS CITY SPEECH, HE HAD NO INDICATION FROM THE CHANCELLOR AS TO HOW HE REALLY FELT ON THE SUBJECT. HE THOUGHT, HOWEVER, THAT THE CHANCELLOR IS SUFFICIENTLY RELAXED AS TO THE URGENCY OF THE MATTER AND HAD NO NEED TO DISCUSS IT IN BRUSSELS.
HILLENBRAND

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